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FM AMEMBASSY RANGOON

TO RUEHC/SECSTATE WASHDC 4848

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STATE FOR EAP/MLS; PACOM FOR FPA; TREASURY FOR OASIA:SSEARLS

E.O. 12958: N/A

TAGS: EFIN PGOV BM

SUBJECT: BURMA'S BUDGET, FOR WHAT IT'S WORTH

¶1. (SBU) Summary: The GOB published its 2006-07 budget, as well as 2005-06 supplemental expenditures in the minimally distributed Burma Gazette. Although accurate amounts and totals are impossible to determine, categories with the largest expenditures in both years are clear: state-owned enterprises followed by "Government" (eg the Prime Minister's office) and the Ministry of Defense. The Construction Ministry received a sizeable supplemental and continues at high levels in 2006-07, presumably related to the new capital. Revenues from taxes and state-owned enterprises, which include natural gas sales, are slated to more than double. The projected deficit for 2006-07 is 235 billion kyat (US\$ 180 million at current market exchange rates), or 2% of the government's estimated GDP. However the new budget does not include figures for the large salary increases announced in April, so we expect the deficit will be larger. The figures that follow offer more of an outline of the GOB's intentions than likely reality, since numbers tend to be fantasy figures and the regime leaders have carte blanche to spend what they want. End summary.

¶2. (SBU) In April, the GOB published its 2006-07 budget as the "2006 State Budget Law" in the Burma Gazette, which is not available to the general public. The Gazette also published the 2006 State Supplemental Appropriation Law, which describes supplemental expenditures, but not the 2005-06 overall budget balance. Prior to 2001-02, the GOB published the annual budget figures in a public newspaper. Burma's fiscal year runs from April 1 through March 31.

¶3. (SBU) The official budget lists revenues and expenditures but does not include a summary, explanations, detailed breakout of categories or calculation of balance positions. State Economic Organizations (SOEs) are presented as a group, lumping the few profitable enterprises (in the areas of natural gas, gems and timber) with the loss makers. Looking at 2005-06 spending and 2006-07 projected revenues and expenditures, the SOE sector as a whole causes major losses reaching 226 billion kyat (US\$ 174 million at current market rates) or 96 percent of the total projected 2005-06 deficit. Officials apply a variety of exchange rates to international transactions, but do not note which rates they applied to

specific budget items. In addition, inflated SOE earnings and unbudgeted spending by the leaders further cast doubt on the reliability of the budget figures. Absent thorough independent reviews or reliable statistics collection, the numbers cited only provide broad outlines of GOB intentions, rather than reliable figures.

¶4. (U) Selected line items:

EXPENDITURES in million kyat	2005-06	05-06 w/supp	%of 2006-07 tot	
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Total	1,574,160	2,418,497	3,062,774	100
SOEs	925,386	1,408,635	2,056,172	67.0
"Government"	15,332	218,395	192,499	6.3
Defense Min.	150,862	170,345	191,157	6.2
Construction Min.	86,955	117,900	111,430	3.6
Finance Min.	85,038	85,257	105,763	3.5
Agriculture Min.	65,766	92,565	105,109	3.4
Transport Min.	40,799	97,136	42,663	1.4
Education Min.	55,845	56,135	58,067	1.9
Health Min.	20,849	21,004	24,182	0.8

REVENUES in million kyat	2005-06	05-06 rev.	2006-07	
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Total	1,337,218	unknown	2,827,455	
SOEs	1,078,910		2,355,215	
Taxes	214,879		424,609	

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Electric Power	3	91
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DEFICIT in million kyat	2005-06	05-06 w/supp	2006-07	
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Total	-236,942	-1,081,279	-235,319	

2005-06 Highlights

¶5. (SBU) Supplemental spending increased overall 2005-06 expenditures to K.2,418 billion (about \$1.86 billion at current market prices). Most of the increases went to capital expenditures (which cover such things as construction, machinery, vehicles, and furnishings) as opposed to current expenditures (which cover salaries and office supplies). SOEs received a 52% increase. Other sizeable increases went to the "Government" and Transportion and Construction ministries, presumably related to the move of the capital. Since the GOB built its new capital on a green field site, it had to build new buildings, roads, infrastructure, as well as transport materials and people to the relatively isolated location. The supplemental capital expenditures in these three categories alone totaled 570 billion kyat (US\$ 438 million at current market rates), although we estimate that moving the capital cost \$1 - \$2 billion, including foreign financing and construction services uncompensated by cash.

¶6. (SBU) Initially the GOB deficit target in 2005-06 was 2% of GDP. Absent figures for revised revenues, the total deficit could have surpassed 9% of GDP. However, receipts from the higher global price of natural gas contributed significantly to government revenues, bringing in approximately \$1 billion in 2005, according to industry sources. The October 2005 reduction in fuel subsidies saved the GOB about K.123 billion (\$95 million) during the last half of the fiscal year by our calculations. In addition, GOB efforts to move more economic acitivities, including border trade and gem sales, into the formal sector may have

contributed additional revenues. A recent IMF/World Bank mission confirmed without specifics that the GOB increased its revenues over the course of the past year.

2006-07 Highlights

17. (SBU) Projected government revenues in the 2006-07 budget are K.2,827 billion (\$2.18 billion at market exchange rates) and total expenditures are K.3,062 billion (\$2.36 billion), with a deficit target of K.235 billion or 1.9% of GDP. However, this budget does not include the sizeable salary increases announced in April, which will likely total another 450 billion (US\$346 million). Ministry of Construction expenditures will remain significantly elevated as will "Government," and the Finance Ministry gets a 24 percent increase. According to retired Finance Ministry officials, the regime uses these funds for special projects. The Defense, Health and Education Ministries all receive higher allocations, but the allocations to Health and Education remain paltry (0.8% and 1.9% respectively of the total budget). On the other hand, the Transport Ministry drops back to its pre-supplemental level.

18. (SBU) On the revenue side, the government plans to collect almost double the taxes it targeted the previous year, and more than double its SOE receipts (including from natural gas). These two categories account for 95.3% of total revenues, but then the SOE deficit accounts for 96.2% of the total deficit. Another notable, but smaller, contributor to government revenues, will be the electric power ministry, which is projected to increase its revenues by 3000 percent.

19. (SBU) Comment: All these numbers, including the GDP figure of 11,856 billion kyat at current prices (US\$ 9.1

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billion at current market rates), must be taken with a grain of salt. The GOB publishes only the figures it wants people to believe, and keeps the real ones closely held. We can safely conclude that it will run a deficit, which the Central Bank will finance by printing money. Money-losing SOEs are a major drain on the budget. The GOB will try to save money by continuing its practice of delaying payments to contractors and suppliers, deferring loan payments, cutting diesel imports, and even reducing funds to military units in the field causing them to demand more from local communities. The revenues the regime gathers will be spent on the leaders and their new capital. The Burmese people will bear the brunt of the costs in terms of higher inflation and declining public services. End Comment.

VILLAROSA